



INDEPENDENT
MARKET
OPERATOR

Draft Rule Change Report

Title: Prudential Requirements

RC_2012_23
Standard Rule Change Process

Date: 24 October 2013

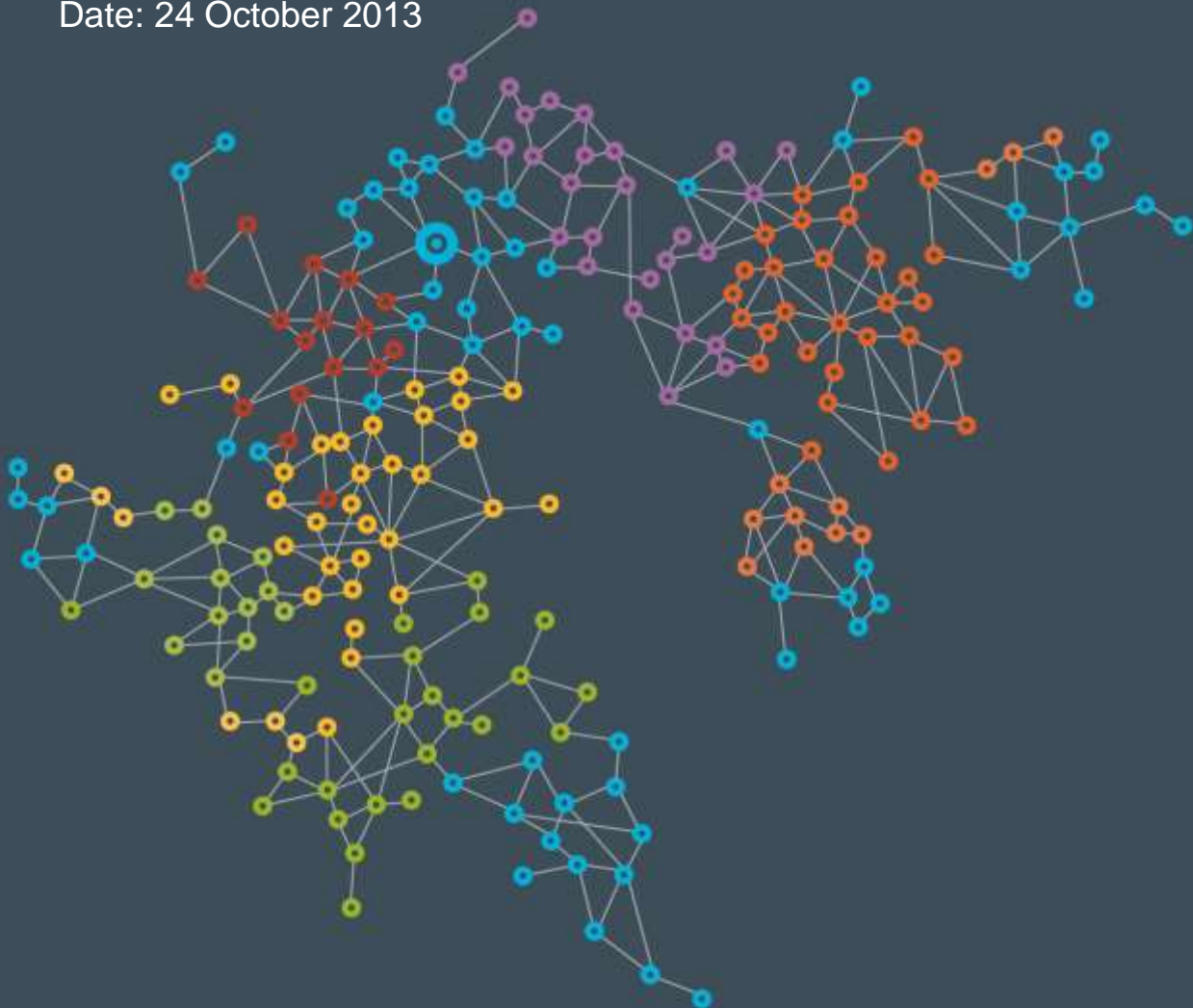


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Executive Summary

Proposed amendments

The IMO submitted this Rule Change Proposal on 14 August 2013 to seek amendments to several clauses related to prudential requirements where greater clarity is needed on the obligations of both Market Participants and the IMO. The IMO identified issues and proposed amendments in the following areas:

- (a) Credit Limit determinations;
- (b) Determining the expected value of a transaction;
- (c) Accounting for voluntary prepayments in the calculation of the Outstanding Amount;
- (d) Typical Accrual and the amount of a Margin Call;
- (e) Arrangements for Credit Support and Reserve Capacity Security; and
- (f) The list of entities meeting the Acceptable Credit Criteria.

Consultation

The pre Rule Change Proposal was first presented to the Market Advisory Committee (MAC) at its 20 March 2013 meeting. The MAC members requested the IMO to undertake and circulate analyses on the effects on Market Participants' Credit Limits of using historical settlement data for a maximum of 24 months in the past, as opposed to 48 months used currently. The IMO circulated the analyses to individual Market Participants in May 2013. Subsequently, the IMO presented the revised pre Rule Change Proposal and the associated draft *Market Procedure: Prudential Requirements* to the MAC at its 7 August 2013 meeting. The MAC members agreed that the proposal should be submitted formally into the Standard Rule Change Process.

The first submission period was held between 15 August and 25 September 2013. Submissions were received from Alinta, Community Electricity, Perth Energy and Synergy. The submitters were generally supportive of most of the proposed amendments. However, the submitters raised specific issues in relation to the guiding principles and use of certain variables in Credit Limit determinations. Alinta was concerned that the proposed amendments to clause 2.37.5 may inappropriately expose a Market Participant to a civil penalty for failing to notify potential decreases in Credit Limits. Synergy raised a concern with the application of the list of factors determining the expected value of a transaction. Alinta and Perth Energy were also concerned with the practicality of applying a 24-hour response time to Margin Calls.

The IMO has addressed the issues raised in submissions in detail in Section 4.3 of this report.

Assessment against Wholesale Market Objectives

The IMO considered that the proposed amendments better achieve Wholesale Market Objective (a) by providing clarity on the Outstanding Amount and the inclusion of voluntary prepayments which will promote accuracy in monitoring Trading Margins and making Margin Calls, thereby minimising the potential financial risk to the market. The proposed amendments will also allow for better timelines and handling processes around Credit Support arrangements which will

reduce overall risk created in the market due to Suspension Events, thereby promoting overall prudential security.

The IMO also considered that the proposed amendments better achieve Wholesale Market Objective (b) by increasing transparency and predictability of the IMO's decisions on key prudential requirements which will reduce barriers to entry for new entrants and promote greater competition in the market.

Additionally, the IMO considered that the proposed amendments were consistent with the remaining Wholesale Market Objectives.

Practicality and cost of implementation

The IMO has not identified any significant costs associated with implementing the proposed amendments. However, the IMO notes that the application of voluntary prepayments to the calculation of Outstanding Amount and its follow-on effects to other variables in the prudential risk report have an associated IT implementation cost which is expected to be accommodated within the IMO's operating costs. Synergy noted that codifying an algorithm in its business IT systems to take into account the list of factors for determining the expected value of a transaction resulting from its market submission would involve a substantial cost. However, the IMO has noted that the requirement for a participant to make submissions only after considering the potential effect of that submission on its Trading Margin already exists in the Market Rules. The IMO therefore does not consider this cost to be associated with the amendments contained in this Rule Change Proposal.

The IMO has not identified any issues with the practicality of implementing the proposed amendments. However, Alinta and Perth Energy considered that the 24-hour rule for Market Participants to respond to Margin Calls was difficult to implement.

The IMO proposed decision

The IMO's proposed decision is to accept the Rule Change Proposal as modified following the first submission period.

Next steps

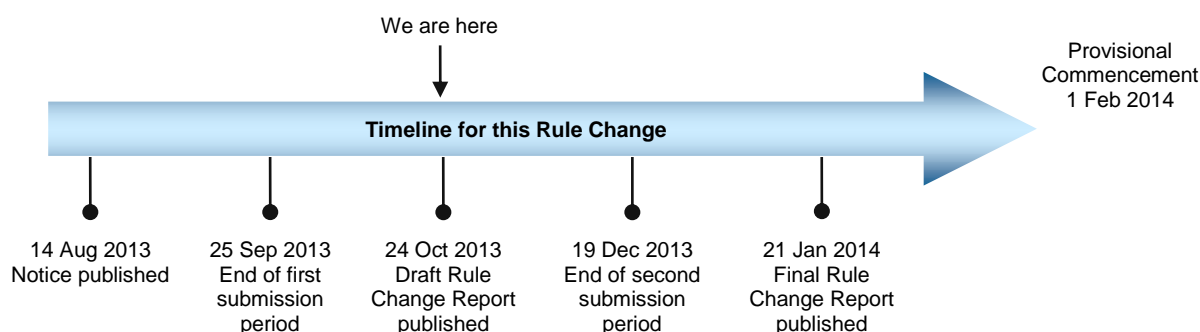
The IMO invites interested stakeholders to make submissions on this Draft Rule Change Report by **5:00 PM, Thursday 19 December 2013**.

1. Rule Change Process and Timetable

On 14 August 2013, the IMO submitted a Rule Change Proposal regarding amendments to numerous clauses related to prudential requirements in the Wholesale Electricity Market (WEM) Rules (Market Rules).

This proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules. In accordance with clause 2.5.10 of the Market Rules, the IMO has decided to extend the second submission period to 40 Business Days from the publication of this Draft Rule Change Report to allow time for circulation of and consultation on the associated *Market Procedures: Prudential Requirements and Reserve Capacity Security*. The IMO published the notice of extension on 24 October 2013.

The key dates in processing this Rule Change Proposal are:



2. Call for Second Round Submissions

The IMO invites interested stakeholders to make submissions on this Draft Rule Change Report. In accordance with clause 2.5.10 of the Market Rules, the IMO has extended the second submission period to 40 Business Days from the publication date of this report. Submissions must be delivered to the IMO by **5.00 PM, Thursday 19 December 2013**.

The IMO prefers to receive submissions by email (using the submission form available on the Market Web Site: <http://www.imowa.com.au/rule-changes>) to: market.development@imowa.com.au

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator

Attn: Group Manager, Development and Capacity
PO Box 7096
Cloisters Square, PERTH, WA 6850
Fax: (08) 9254 4399

3. Proposed Amendments

3.1. The Rule Change Proposal

The IMO identified several clauses related to prudential requirements where clarification was required on the obligations of both the Market Participants and the IMO. The IMO identified issues and proposed amendments in the following areas:

- (a) **Credit Limit determination** – The IMO identified three aspects of the Credit Limit determination process that needed clarification:
- (i) Clauses 2.37.1, 2.37.2 and 2.37.3 of the Market Rules specify the IMO's obligations around determining, revising and reviewing a Market Participant's Credit Limit. The IMO considered that the clauses require stronger linkages between the obligations and the associated processes.
 - (ii) Clause 2.37.4 of the Market Rules specifies the Credit Limit as a predicted amount not expected to be exceeded more than once in a 48-month period. The clause also outlines a list of factors that the IMO must take into account when determining a Market Participant's Credit Limit. The IMO considered that its current practice of using historical settlements data to determine a Market Participant's anticipated maximum exposure over any 70-day period has proved to be a robust, predictable and repeatable tool. Further, the IMO observed that some of the factors listed in the clause have proven to be less practical in application than the use of actual data or objective and reasonable estimations. Therefore, the IMO proposed to amend this clause to increase transparency and clarity of its current practice.
 - (iii) Clause 2.37.5 of the Market Rules requires a Market Participant to notify the IMO of certain circumstances that may affect its Credit Limit. The IMO considered that the clause should be drafted as a general requirement for both Market Customers and Market Generators. Additionally, the IMO also considered that the clause should include scenarios where a Market Participant is able to request the IMO to consider a decrease in its Credit Limit.
- (b) **Determining the expected value of a transaction** – Clause 2.37.9 of the Market Rules requires the IMO to provide guidelines, consistent with the methodology for Credit Limit determinations, to be used by the IMO and Market Participants to assess whether a Market Participant's Trading Margin will be exceeded following a submission in the market. The IMO considered that a definitive and prescriptive guideline was not practicable given the way submissions are made and liabilities arise in the market. The IMO also noted that the associated Market Procedure did not include a guideline for this purpose. The IMO proposed amendments to clause 2.37.9 (renumbered to clause 2.41.5) to outline a list of factors (in place of a guideline) in the Market Procedure to determine the expected value of a transaction. Further, the IMO proposed minor amendments to clauses 2.41.2 and 2.41.3 to refer to the list of factors in proposed amended clause 2.41.5.
- (c) **Accounting for voluntary prepayments in the Outstanding Amount** – Currently, a Market Participant is able to make a voluntary prepayment to decrease its Outstanding Amount (thereby increasing its Trading Margin) and allowing it to continue to transact securely in the market. The IMO considered that clause 2.40.1 of the Market Rules should explicitly account for voluntary prepayments as an input into the calculation of a Market Participant's Outstanding Amount. This will reduce the financial risk associated with Suspension Events

and provide assurance to Market Participants on their continued ability to participate in the market.

- (d) **Typical Accrual and the amount of a Margin Call** – Clause 2.42.2 of the Market Rules outlines the concept of Typical Accrual and clause 2.42.3 specifies that the Margin Call amount must be determined as the difference between a Market Participant's Outstanding Amount and Typical Accrual. The IMO considered that Typical Accrual is a complex concept and is not likely to produce a more reliable estimate compared to the Outstanding Amount. Therefore, the IMO proposed to remove the concept of Typical Accrual and determine the amount of a Margin Call as that amount that will raise the Trading Margin to zero.
- (e) **Arrangements for Credit Support and Reserve Capacity Security** – Clauses 2.38.1, 2.38.2 and 2.38.3 of the Market Rules outline the requirements of a Market Participant to submit, maintain and replace its Credit Support. The IMO considered that these clauses should provide greater clarity on a Market Participant's obligations with regard to the amount, the type of arrangement and the timeline for replacement of its Credit Support.

The IMO noted that clauses 4.13.1, 4.13.2C, 4.13.3 and 4.13.4 of the Market Rules which are related to the submission, maintenance and replacement of Reserve Capacity Security should also be amended accordingly for consistency.

- (f) **List of entities meeting the Acceptable Credit Criteria** – Clause 2.38.7(a) of the Market Rules places an obligation on the Credit Support provider to supply evidence that it continues to meet the Acceptable Credit Criteria every 12 months. The IMO considered that the obligation should be placed on the Market Participant that is using that Credit Support provider because for the purpose of the Market Rules, the Market Participant is responsible for maintaining valid Credit Support. The Credit Support provider falls outside the purview of the Market Rules resulting in the obligation becoming unenforceable. Therefore, the IMO proposed amending clause 2.38.7(a) to reflect that the requirement to supply evidence of meeting Acceptable Credit Criteria is placed on the Market Participant.

For full details of the Rule Change Proposal please refer to the Market Web Site: http://www.imowa.com.au/RC_2012_23.

3.2. The IMO's Initial Assessment of the Rule Change Proposal

The IMO decided to proceed with the proposal on the basis that Rule Participants should be given an opportunity to provide submissions as part of the rule change process.

3.3. Protected Provisions, Reviewable Decisions and Civil Penalties

Clauses 2.37.1, 2.37.2 and 2.37.3 of the Market Rules are classified as Reviewable Decisions. The IMO has proposed amendments to these clauses to clarify the prudential requirements which place obligations on Market Participants and the IMO, and strengthen the linkages with the associated Market Procedure. As the proposal does not intend to change the intent of these Reviewable Decisions, the IMO does not believe that this proposal will require changes to the *Electricity Industry (Wholesale Electricity Market) Regulations 2004* (Regulations).

Clause 2.37.5 of the Market Rules has an associated Category B civil penalty under the Regulations. While the intent of this clause has not been changed, the IMO proposes to renumber this clause to clause 2.37.8 to improve clarity of the Market Rules. In addition, the IMO has included a sub-clause that provides for a Market Participant to notify the IMO of any changes in

circumstances that may result in a decrease in the Market Participant's Credit Limit. The IMO is of the view that the civil penalty should only apply to clause 2.37.8(a) which, if not complied with, imposes financial risk to the market. These proposed amendments will require corresponding amendments to Schedule 1 of the Regulations.

The IMO proposes to amend clauses 2.38.1, 2.38.2 and 2.38.3 of the Market Rules to include a reference to clause 2.38.4 which outlines the form in which Credit Support must be provided. Clause 4.13.3 and 4.13.4, which apply to Reserve Capacity Security, have been amended in a similar way to refer to clause 4.13.5. Clauses 2.38.1, 2.38.2, 2.38.3, 4.13.3 and 4.13.4 have associated Category B civil penalties under the Regulations. The IMO notes that the proposed amendments do not change a Market Participant's obligations and is therefore of the view that the civil penalty remains appropriate.

Clause 2.41.2 of the Market Rules also has an associated Category B civil penalty. The IMO has proposed amendments to this clause to refer to a list of factors to determine the expected value of transactions, rather than provide a guideline. The IMO notes that the proposed amendment does not change the obligation on Market Participants and is therefore of the view that the civil penalty remains appropriate.

The IMO has engaged with the Public Utilities Office to discuss the proposed amendments and subsequent changes to the Regulations. The IMO also invites feedback from interested parties on the IMO's view of the proposed changes to the Regulations.

4. Consultation

4.1. The Market Advisory Committee

The pre Rule Change Proposal was first presented at the Market Advisory Committee (MAC) at its 20 March 2013 meeting. The following questions were raised by MAC members:

- Mr Stephen MacLean and Mr Nenad Ninkov queried the effect of reducing the time period of historical settlement data to be considered in Credit Limit determinations from 48 to 24 months. The MAC members requested that analyses showing the impact of this change be circulated to Market Participants on an individual basis. The IMO circulated the requested analyses in May 2013.
- Mr MacLean clarified whether an estimate of Synergy's Notional Wholesale Meter was included in its Trading Margin calculation. The IMO confirmed that the Trading Margin calculation for all Market Participants was based on the most recent Invoice issued to that participant. The Chair added that the responsibility for monitoring changes in consumption patterns rested with Market Participants.
- Mr Geoff Gaston queried if, under the current Market Rules, the IMO was able to make Margin Calls and determine the Margin Call amount. The IMO clarified that it was currently able to make Margin Calls and determine the amount. It also noted that the proposed removal of the concept of Typical Accrual will simplify the calculation of the amount of the Margin Call by linking it directly to the Trading Margin.

The IMO presented a revised version of the pre Rule Change Proposal to the MAC at its 7 August 2013 meeting. The IMO also supplied the revised draft Market Procedure to assist the MAC members to consult on the entire package of amendments.

The following comments and questions were raised by MAC members:

- Mr Will Bargmann questioned whether a Market Participant's credit-worthiness would be considered when determining Credit Limit. The IMO responded that the proposed amendments in clause 2.37.5 included the IMO's discretion to use any other factor (including credit-worthiness) if it was considered relevant.
- Mrs Jacinda Papps was concerned that the proposed amendments in this Rule Change Proposal might inadvertently change the intention of the Amending Rules in RC_2010_36: *Acceptable Credit Criteria*. The IMO confirmed that the intention of the rules as proposed in RC_2010_36 were preserved and the proposed amendment sought to place the obligation of providing evidence to meet Acceptable Credit Criteria on the Market Participant and not the Credit Support provider.

The MAC members agreed that the IMO should submit the Rule Change Proposal formally and progress it using the Standard Rule Change Process.

Further details are available in the MAC meeting minutes available on the Market Web Site: <http://www.imowa.com.au/MAC>

4.2. Submissions received during the first submission period

The first submission period for this Rule Change Proposal was between 15 August and 25 September 2013. Submissions were received from Alinta, Community Electricity, Perth Energy and Synergy.

Alinta was generally supportive of the intention of most of the proposed amendments. Community Electricity supported the Rule Change Proposal on the grounds that it clarified, simplified and improved the existing clauses. Perth Energy supported the proposals that improved the transparency and predictability of the IMO's decisions that affected Market Participants in the WEM.

Some submitters supported proposed amendments related to specific topics. These are outlined in the table below:

Topic	Submitters' views
Credit Limit determinations	Perth Energy and Synergy supported the proposed amendments on the basis that they improved the transparency and predictability of the IMO's decisions.
Notification of changes in circumstances affecting Credit Limits	Alinta and Perth Energy supported the inclusion of a general requirement for Market Participants to notify the IMO of a change in circumstances.
List of factors for determining the expected value of a transaction	Alinta supported the IMO's proposal to develop a list of factors (instead of a guideline) for determining the expected value of a transaction.
Voluntary prepayments	Community Electricity and Alinta supported the inclusion of voluntary prepayments in the Market Rules on the grounds that it would provide greater certainty to Market Participants and reduce overall financial risk to the market.

Topic	Submitters' views
Typical Accrual	Alinta and Perth Energy supported the proposed removal of Typical Accrual from the Market Rules on the grounds that its application was complex and was unlikely to produce more reliable estimates of a Participant's Outstanding Amount.

The submitters' assessment against Wholesale Market Objectives is provided in the table below:

Submitter	Wholesale Market Objective assessment
Alinta	None provided.
Community Electricity	Improves the clarity and integrity of the Market Rules and is consistent with Wholesale Market Objectives.
Perth Energy	Better achieves Wholesale Market Objectives (a) and (b).
Synergy	None provided.

The IMO has addressed each of the issues identified by Market Participants in Section 4.3. A copy of all submissions in full received during the first submission period is available on the Market Web Site: http://www.imowa.com.au/RC_2012_23

4.3. The IMO's response to submissions received during the first submission period

The IMO's response to each of the issues identified during the first submission period is presented in the table over the page:

	Submitter	Comment/Change Requested	IMO's Response
<i>Credit Limit Determination</i>			
1.	Alinta	Under the Market Rules, the right behaviour from a Market Participant is incentivised by requiring it to provide Credit Support equivalent to its Credit Limit. The level of Credit Limit is vital to the prudential design. The costs to short Participants (buyers) should not be excessive and do not necessarily have to guarantee payment to long Participants (sellers) 100% of the time. Rather the costs simply need to incentivise the right behaviour.	The IMO does not agree with Alinta's comment. Settlement in the WEM is designed on the fundamental principle that all Market Participants that owe money will pay in full and on time for the IMO to subsequently pay all Market Participants owed money. The IMO determines a Market Participant's Credit Limit to ensure that the overall market is protected and will not be short-paid in the event that a Participant defaults on payments.
2.	Alinta	The proposed amendment to Credit Limit determinations results in a change from the expectation that the Credit Limit would not be exceeded more than once to never being exceeded (guaranteeing 100% payment to long Participants). This approach is highly conservative and ultimately increases the prudential standards in the WEM. The change in principle has not been adequately supported by the IMO. Alinta is concerned that there doesn't seem to have been adequate consideration of the risk to the market of the default of a Participant with and without these proposed changes. However, Alinta acknowledges that this is current practice and so there will be no "real" financial impact as a result of this proposed amendment.	The IMO's current methodology for determining the Credit Limit is based on the Market Participant's theoretical maximum exposure amount that has already been reached once. The IMO acknowledges that some stakeholders may consider the current approach conservative. However, the IMO considers that this approach results in it holding sufficient prudential security to adequately protect the overall market from individual Market Participant's default. Further, clause 2.37.4(d) as currently stated requires the IMO to adjust Credit Limits for the period from Market Participant default to deregistration. If an appropriate adjustment for these events could be made, prudential costs for individual Market Participants may increase substantially.
	Perth Energy	Perth Energy would also welcome a review of whether the 70 day period concept still represents a reasonable balance between risk mitigation and cost minimisation for the Wholesale Electricity Market (WEM).	The IMO appreciates the suggestions around initiating broader consultation on prudential standards in the WEM. Work has commenced on assessing potential improvements to the energy market and the settlement process. A holistic review of

	Submitter	Comment/Change Requested	IMO's Response
	Synergy	Synergy interprets the Credit Limit proposal to mean that by definition the market will be required to hold the highest level of credit support which in turn translates to a significant premium which ultimately is passed to customers. Synergy suggests that the level of credit risk borne by the market is an important design parameter and that any change in that parameter, especially one which affects all participants, should be examined in appropriate detail as a prerequisite to a consensus being achieved across the market as the mandate for change.	the Prudential Obligations should be undertaken following these reviews. This Rule Change Proposal will bring the Market Rules in alignment with the IMO's current practice to provide and accurate reflection of the Prudential Obligations, upon which to base the justification for further evolution of Prudential Obligations in the WEM.
3.	Synergy	In regard to the new requirement for the IMO to take account of the participant's historical level of payments based on bilateral sale and purchases (viz. clause 2.37.5(b)), Synergy notes the absence of discussion in the rule change proposal as to the merit of its inclusion. While Synergy fully appreciates that bilaterally traded sale and purchase quantities are a legitimate inclusion in a credit limit determination, it fails to understand the inclusion of the obligation on the IMO to take account of the level of payments when such information is confidential, therefore requiring an estimate – this adds an unnecessary element of uncertainty to the calculations and is contrary to the IMO's intention to make credit limit determination transparent. Synergy recommends that references to bilateral payments be removed.	The IMO agrees with Synergy's comment and has proposed further amendments to clause 2.37.5(b).

	Submitter	Comment/Change Requested	IMO's Response
4.	Perth Energy	New clauses 2.37.5(f),(g) and (h) require the IMO to take into account historical levels of ancillary services payments, outage compensation payments and settlement reconciliation payments when determining a Market Participant's Credit Limit. Perth Energy considers that there may be merit in considering reflecting average values for these parameters rather than the actual values appearing in the 70 day period that is the basis for the calculation of the Credit Limit. This is because these parameters are largely outside the control of individual Market Participants and it would be unreasonable to inflate the credit requirement due to for example a one-off significant settlement reconciliation amount caused by metering errors.	<p>The IMO observes that Ancillary Services payments are under a Market Participant's direct control as they result from the Participant's proportion of consumption. Similarly, Outage Compensation amounts result largely from a Market Participant's direct activity in the market. The IMO considers that reflecting average amounts may underestimate the liability arising for these components resulting in insufficient prudential security being held.</p> <p>Reconciliation settlement amounts may result from the activities of other Market Participants. However, these amounts can be large and volatile implying that where a reconciliation payment is expected, the IMO should hold enough prudential security to cover for potential payment defaults. Additionally, the IMO notes that reconciliation amounts tend to average out over annual Credit Limit reviews.</p>
5.	Perth Energy	Perth Energy queries whether new clause 2.37.5(j) is necessary. The clause requires the IMO to consider the length of the settlement cycle when determining the Credit Limit of a Market Participant. Perth Energy queries how the length of the settlement cycle could have any impact on the maximum exposure over a 70 day period, which is the guiding principle for determining the Credit Limit.	The IMO has retained length of the settlement cycle as a factor in Credit Limit determination because it is a guiding principle to determine the tenure of liability in the WEM. The settlement cycle timeline encompasses both the STEM and Non-Stem settlement periods. The STEM cycle is a 15-day process whereas the Non-STEM cycle, which sets the current boundary of the Credit Limit determination, is a 70-day process.

	Submitter	Comment/Change Requested	IMO's Response
6.	Alinta	<p>Alinta considers that a conservative approach on Credit Limits should be adopted for the purposes of prudential requirement in the WEM is a matter of policy which requires further consideration by the market and ultimately a policy direction from the Public Utilities Office (PUO). Alinta recommends that:</p> <ul style="list-style-type: none"> • The amendments to how the Credit Limit are calculated are not further progressed until a policy direction from the PUO has been sought on the intention of the prudential regime and in particular what behaviour it is trying to encourage. • If the PUO determines to not issue a policy direction on this matter then at the very minimum a more detailed consideration of the relevant costs and benefits (with reference to the Market Objectives) needs to be undertaken by the IMO and presented for consultation with industry. 	<p>Being the entity authorised to clear the market, the IMO is best placed and has the most reliable information to assess the financial risk and determine an appropriate prudential regime for the continued operation of the market.</p> <p>As mentioned previously, the Rule Change Proposal seeks to reflect the IMO's current practice in the relevant clauses. The IMO is not proposing to implement new standards or methodologies.</p> <p>The Public Utilities Office has not commented on this Rule Change Proposal.</p>
7.	Alinta	<p>Alinta considers it is unclear in the Rule Change Proposal what time-period for historical data will be used in determining the Credit Limit for a Market Participant. Alinta also notes that clause 2.37.4 as proposed to be amended appears to cover any 70 day period which Alinta understands is not the intention (nor would Alinta support this if it was the intention). To cover any 70 day period would be mean that exposure during events such as Varanus Island would be potentially forever taken into account in setting a participants Credit Limit. While detail that the 70 day period is from the last 24 months is provided in the draft Market Procedure (as presented at MAC), Alinta suggests that this is an important consideration that should be included into the Amending Rules to avoid any confusion.</p>	<p>The IMO noted in the Rule Change proposal its intention to adopt the approach of making the rules principles-based and retaining prescriptive detail in the Market Procedure. The IMO considers that the proposed amendment to clause 2.37.4, where the Credit Limit amount is determined as the maximum exposure over a 70-day period, sets the guiding principle. This is then converted into application steps in the Market Procedure such that:</p> <ol style="list-style-type: none"> 1. For existing Market Participants, the IMO will look back settlement data up to 24 months; and 2. For new Market Participants, the IMO will estimate a reasonable exposure amount.

	Submitter	Comment/Change Requested	IMO's Response
	Synergy	<p>Synergy supports reducing the period from 48 to 24 months which is a sufficient period to identify any underlying episodic trends in participant exposure. The look back period is a critical element of the assessment process and therefore should be stipulated in the rules, as is currently the case. Retaining the period in the rules has the benefit that change proposals can be initiated by an interested party and are subject to the more rigorous rule change process which in particular allows participants to respond to the IMO's assessment of first round submissions – which is not the case in respect of the procedure change process. Further, it is consistent with the IMO's approach that the rules embody matters of principle while the procedures contain matters of prescriptive detail. In Synergy's view, the look back period over which the 70 day exposure will be assessed constitutes a matter of principle and hence should remain in the market rules.</p>	<p>The IMO considers that the proposed clause 2.37.4(c) directly links the definition of Credit Limit to the methodology defined in the Market Procedure. This removes ambiguity related to the look-back period of historical data. Additionally, the proposed drafting of clause 2.37.4 ensures that future amendments cannot be made to this clause without simultaneously considering the Market Procedure.</p>
<i>Notification to the IMO of circumstances affecting Credit Limit</i>			
8.	Alinta	<p>Alinta maintains its position that ability for a Market Participant to request a review of its Credit Limit should be included into the Market Rules (not just the Market Procedure) given the potentially significant financial implications. Alinta does not consider that this is "prescriptive detail" that is appropriate to only appear in the Market Procedure.</p>	<p>The IMO considers that the proposed amendment to clause 2.37.5 (renumbered to 2.37.8) retained the general principle for Market Participants to notify the IMO of circumstances that may justify revisions to the Credit Limit. The IMO considered that the description of some potential circumstances is appropriately moved to the Market Procedure.</p>

	Submitter	Comment/Change Requested	IMO's Response
9.	Alinta	Alinta considers it is important that all changes in behaviour that increase a participant's exposure are notified to the IMO (from both customers and generators). Given the situation where a participant's exposure will decrease, the IMO would already hold sufficient Credit Support and it is unclear how this would pose a risk to the market such that it would warrant the application of a civil penalty. While this information may be valuable to the IMO, Alinta opposes it being subject to a civil penalty given it's not necessary for the protection of the market and creates additional unnecessary regulatory burden. Alinta requests that the IMO amends this aspect of the proposal to make it optional for decreases in exposure to be notified to the IMO (and not subject to a civil penalty).	<p>The IMO agrees that the intent of this clause is to limit the risk of exposure to the financial impact of a Market Participant defaulting. The associated civil penalty is designed to penalise inappropriate behaviour that unduly creates financial risk in the market.</p> <p>The IMO has proposed further amendments to clause 2.37.8 to separate the obligations so as to remove the requirement for a participant to notify the IMO of circumstances justifying a potential decrease in Credit Limit, thereby enabling the removal of the civil penalty associated with failing to notify potential decreases.</p>
Responding to Margin Calls			
10.	Alinta	Alinta does not support amending the rules to require additional credit to be provided within 24 hours where a Margin Call has been issued. The ability to provide additional monies through to the IMO in this circumstance is heavily reliant on banking cut off times and working days. For example, in the circumstances where a Margin Call is issued post pm ACST on a Friday or any time on a Saturday it is simply not possible to acquire additional monies by 24 hours later. Alinta strongly opposes this obligation being incorporated into the Market Rules given it will be impossible to ensure compliance.	The IMO observes that the intent of a Margin Call is to rectify a potential short-payment to the market in a timely and efficient manner. Where the IMO has made a Margin Call on a Market Participant, it is evident that the Participant's Trading Margin has depleted to a level that the IMO considers will result in a short-payment. Therefore, it becomes necessary for the IMO to restore confidence quickly and secure the market from a potential Suspension Event. In such situations, it is appropriate that the participant stops transacting in the market if it is unable to provide Credit Support in the amount of the Margin Call.

	Submitter	Comment/Change Requested	IMO's Response
	Perth Energy	Perth Energy queries the practicality of applying a 24 hour rule rather than the current one Business Day rule to the amount of time that is afforded Market Participants to rectify certain credit related issues, such as providing replacement security where necessary. During week-ends and holidays it may not be possible for Market Participants to engage their credit provider within the 24 hour period. The result may be that the Market Participant may need to cease trading until the issue can be resolved on the first available Business Day. If the proposed move to a 24 hour period is retained in the final drafting, Perth Energy proposes that the IMO puts in place internal procedures to enable it to provide Market Participants that may be approaching a Margin Call during the upcoming non Business Days with advance warning so the Market Participant can make necessary arrangements with its credit provider ahead of week-ends and other non-Business Day periods.	The IMO notes the concerns around ability to respond within 24 hours and appreciates Perth Energy's suggestion to institute internal procedures to provide warning of potential depletion of the Trading Margin. The IMO is building changes to the prudential risk reporting system on the Market Participant Interface which will include the Margin Call amount (based on the Trading Margin) as well as an estimate of future liabilities until the next Invoice. The IMO considers that these variables can act as signals for Market Participants to provide prepayments (if need be) to continue trading in the market. The IMO will provide further details on this aspect of the prudential risk report in the procedure change process.
Arrangements for Credit Support and Reserve Capacity Security			
11.	Alinta	Alinta notes that the rationale for the changes to clause 2.38.1 is not entirely clear. No case has been presented as to why a participant that meets the Acceptable Credit Criteria must necessarily provide a Credit Support. Alinta requests further details of the rationale for this change are presented to industry for its consideration.	Clause 2.38.1 of the Market Rules is currently ambiguous. Where the IMO determines a Credit Limit amount for a Market Participant, the IMO must hold Credit Support in the form of either a bank undertaking/ guarantee (underwritten by a creditworthy entity) or a Security Deposit. This ensures that in the event of a default, the Credit Support is available to Draw Upon. The proposed Amending Rules do not change the intent or current operation of the requirement for Market Participants to provide Credit Support. The proposed amendments instead clarify that the Market Participant is responsible for ensuring the IMO holds Credit Support in an appropriate form as outlined in clause 2.38.4 which itself has not materially changed.

	Submitter	Comment/Change Requested	IMO's Response
12.	Alinta	<p>Alinta considers the IMO's proposed drafting of clauses 2.38.1, 2.38.2 and 2.38.3 adds unnecessary additional prescription to the rules by repeatedly clarifying that a Credit Support has to be in the form specified in clause 2.38.4. Given that any single clause needs to be read in the context of the Market Rules this proposed amendment is unnecessary.</p> <p>With respect to the proposed changes to the Reserve Capacity Security rules Alinta wishes to reiterate its concern that the IMO is including unnecessary prescriptive detail into the Market Rules with respect to the requirement for a Reserve Capacity Security to be in the form outlined in clause 4.13.5.</p>	<p>The IMO does not agree with Alinta's comment and considers that greater clarity is added to these clauses by expressly stating the Market Participant's obligations.</p> <p>Clauses related to Reserve Capacity Security are proposed to be amended in a similar way to ensure consistency.</p>
List of entities meeting Acceptable Credit criteria			
13.	Alinta	<p>Alinta considers it is unclear why an entity could not provide evidence to the IMO that it meets the Acceptable Credit Criteria rather than the relevant Market Participant. The intention of introducing this amendment into the rules originally was to enable financial institutes etc. to directly engage with the IMO to be included onto the list of entities. While this might not have occurred to date it is unclear why removing this ability is necessary or required.</p>	<p>The IMO highlights that for the purpose and implementation of these rules, the entity of concern is the Market Participant. The Credit Support provider that the Market Participant chooses to use for the provision of Credit Support falls outside the purview of the Market Rules, implying that a requirement on the Credit Support provider cannot be enforced.</p> <p>The IMO notes that the responsibility of ensuring that the Credit Support provider a Market Participant has used, continues to meet the Acceptable Credit Criteria rests with the Market Participant. The proposed Amending Rule does not disallow a Credit Support provider from supplying evidence to the IMO. Instead, it places the requirement on the Market Participant which is the appropriate entity for the operation of the rule.</p> <p>Further, the IMO notes that the original intent of clause 2.38.7 is preserved in that the IMO must maintain the list of entities meeting the Acceptable Credit Criteria by either considering evidence that a Market Participant may have provided in the previous 12 months or by using its own discretion.</p>
	Synergy	<p>Synergy notes proposed amendments to clause 2.38.7(a) would disallow entities providing credit support from providing evidence to the IMO, of their own volition as is currently the case that they continue to meet the Acceptable Credit Criteria. The amendments propose that the obligation to provide the evidence that an entity continues to meet the Acceptable Credit Criteria be placed on and restricted to participants – the rationale of the benefit to the market from the IMO proposing this change is difficult to understand. In Synergy's view, there are efficiencies if credit providers can of their own initiative provide this evidence: this reduces costs to participants and potentially introduces an element of competition among credit providers where they have sought to provide the necessary evidence.</p>	

	Submitter	Comment/Change Requested	IMO's Response
14.	Alinta	Alinta notes that details of the obligations for monitoring the list of entities etc. are not currently provided in the Market Rules and requests clarity of what exactly the IMO intends to move from the rules into the Market Procedure. Alinta notes that the Market Procedure still requires updating following the original Rule Change Proposal that introduced the concept of a list of acceptable credit providers	The IMO has retained operational matters on maintaining the list of entities in the Market Procedure. The IMO presented the proposed amended Market Procedure to the MAC on 7 August 2013 and subsequently to the IMO Procedure Change and Development Working Group (IMOPWG) on 20 September 2013. The IMO will progress the Procedure Change Process following the publication of this Draft Rule Change Report to facilitate consultation on this matter.
<i>List of factors for determining the expected value of a transaction</i>			
15.	Synergy	<p>While there is merit in requiring a participant to have a view of its Trading Margin and how it may potentially change following a submission to the market, Synergy believes that there are difficulties with the IMO's proposal which effectively requires participants to value a proposed submission according to the list of factors referred to in clause 2.41.5. Compliance with the obligation in clause 2.41.2 suggests that the participant must first value the proposed transaction before submitting it to the market to ensure that it will not expunge its trading margin. In practice this means that the list of factors must be converted to a codified algorithm that can be built into participant trading systems.</p> <p>Of particular concern is the requirement to take account of Non-STEM trading activities and invoiced amounts which include balancing amounts owed to and payable by the IMO. Synergy is concerned about the implications of clause 2.41.2 when in regard to the Notional Wholesale Meter there is a paucity of immediately available and reliable data to form a basis for the required submission valuation. Accordingly, to overcome these practical difficulties Synergy recommends that the IMO share its proposed approach for codifying the list of factors (to give effect to clause 2.41.3) so that participants are in the best position possible to test potential market submissions in their trading systems against their trading margins prior to making such submissions.</p>	<p>The IMO notes that the aim of the list of factors to be used in determining the expected value of a transaction is to facilitate the IMO and Market Participants to determine the reasonableness of assumptions and estimations made before making a submission into the market.</p> <p>The IMO will continue to provide the Market Participant's prudential risk report through the Market Participant Interface. This report represents a daily view of the participant's trading activities and their impact on the Outstanding Amount and the Trading Margin. The IMO is also currently working on a measure of participants' forecast liabilities to indicate the potential impact on their Trading Margin, which will be supplied in greater detail during the Procedure Change Process. The IMO considers that this information will bring the variables closer to real-time and provide Market Participants some certainty on the resulting value of their submissions and aid them in making trading decisions.</p> <p>Further, the IMO also notes that clause 2.41.2 already requires a Market Participant to refrain from making a submission if it could cause the depletion of the participant's Trading Margin.</p>

4.4. Public Forums and Workshops

The IMO presented the associated Market Procedure: *Prudential Requirements* to the IMO Procedure Change and Development Working Group (Working Group) at its 20 September 2013 meeting. The IMO drafted amendments to the Procedure to implement the proposed Amending Rules presented in the Rule Change Proposal. The IMO will now proceed with the Procedure Change Process based on the comments received at the Working Group and the submissions received in the first submission period of the rule change process.

No other public forums or workshops were held with regard to this Rule Change Proposal.

5. The IMO's Draft Assessment

In preparing its Draft Rule Change Report, the IMO must assess the Rule Change Proposal in light of clauses 2.4.2 and 2.4.3 of the Market Rules.

Clause 2.4.2 outlines that the IMO *“must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives”*.

Additionally, clause 2.4.3 states, when deciding whether to make Amending Rules, the IMO must have regard to the following:

- any applicable policy direction from the Minister regarding the development of the market;
- the practicality and cost of implementing the proposal;
- the views expressed in submissions and by the MAC; and
- any technical studies that the IMO considers necessary to assist in assessing the Rule Change Proposal.

The IMO notes that there has not been any applicable policy direction from the Minister or any technical studies commissioned in respect of this Rule Change Proposal. A summary of the views expressed in submissions and by the MAC is available in section 4 of this report.

The IMO's assessment is outlined in the following sub-sections.

5.1. Additional Amendments to the proposed Amending Rules

Following the first public submission period the IMO has made additional changes to clause 2.37.5(b) and 2.37.8 to reflect the submissions received during the first submission period.

The changes the IMO has made to the Amending Rules as presented in the Rule Change Proposal are outlined in Appendix 1 of this Draft Rule Change Report.

5.2. Wholesale Market Objectives

The IMO considers that the Market Rules as a whole, if amended as presented in section 7, will not only be consistent with the Wholesale Market Objectives but also allow the Market Rules to better address Wholesale Market Objectives (a) and (b).

The IMO's assessment is presented below:

(a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system

The IMO believes the proposed amendments to the prudential requirements will allow the Market Rules to better achieve Wholesale Market Objective (a) as it will:

- provide clarity on the Outstanding Amount and the inclusion of voluntary prepayments which will promote accuracy in monitoring Trading Margins and making Margin Calls, thereby minimising the potential financial risk to the WEM and promoting economic efficiency; and
- allow better timelines and handling processes around Credit Support arrangements which will reduce overall risk created in the WEM due to Suspension Events, thereby promoting economic efficiency.

(b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors

The IMO believes the proposed amendments to the prudential requirements will also allow the Market Rules to better achieve Wholesale Market Objective (b) as it will increase transparency in the WEM by providing more information on a Market Participant's Credit Limit determination, thereby reducing barriers to entry for new entrants.

The proposed amendments will also improve the overall integrity of the Market Rules by employing a principles-based approach, moving the more prescriptive detail into the Market Procedure. It will also improve the linkages between the Market Rules and the Market Procedure.

5.3. Practicality and cost of implementation

5.3.1. Cost:

The IMO has not identified any significant costs associated with implementing the proposed amendments. However, the IMO considers that the application of voluntary prepayments to the calculation of Outstanding Amount and its follow-on effects to other variables in the prudential risk report have an associated IT implementation cost which is expected to be accommodated within the IMO's operating costs.

Synergy noted in its submission that it would incur costs to account for the list of factors used to determine the expected value of transactions in its business IT systems in order to effectively calculate its Trading Margin. No other submitters raised this as an issue. The IMO notes that the requirement for a participant to make submissions only after considering the potential effect of that submission on its Trading Margin already exists in the Market Rules. The IMO therefore does not consider this cost to be associated with the amendments contained in this Rule Change Proposal.

5.3.2. Practicality:

The IMO does not consider that there are any issues with the practicality of implementation of the proposed changes.

5.3.3. Amendments to associated Market Procedures:

The IMO notes that amendments are required to the associated Market Procedures for *Prudential Requirements* and *Reserve Capacity Security* in response to the proposed Amending Rules. It is expected that the proposed amended Market Procedures will be submitted into the Procedure Change Process during the second submission period to allow stakeholders to consider the Draft Rule Change Report and proposed amended Market Procedures as a package.

6. The IMO's Proposed Decision

The IMO's proposed decision is to accept the Rule Change Proposal as modified by the amendments outlined in section 5.1.

6.1. Reasons for the decision

The IMO made its proposed decision on the basis that the Amending Rules:

- better achieve Wholesale Market Objectives (a) and (b);
- are consistent with the remaining Wholesale Market Objectives; and
- have the general support of the MAC and the submissions received during the first submission period.

6.2. Proposed Commencement details

The Amending Rules are proposed to commence at **8:00 AM** on **1 February 2014**.

7. Proposed Amending Rules

The proposed Amending Rules as presented in the Rule Change Proposal and amended following the first submission period are as follows (~~deleted text~~, added text):

Prudential Requirements

2.37. Credit Limit

- 2.37.1. The IMO must determine a Credit Limit for each Market Participant in accordance with clause 2.37.4.
- 2.37.2. Subject to clauses 2.37.3 and 2.42.7, the IMO may review and revise a Market Participant's ~~revise the Credit Limit of a Market Participant~~ at any time.
- 2.37.3. The IMO must review each Market Participant's ~~the Credit Limit of a Market Participant~~ at least once each year.
- 2.37.4. Subject to clauses 2.37.5 and 2.37.6, the Credit Limit for a Market Participant is the dollar amount determined by the IMO as being equal to the amount that the IMO reasonably expects will not be exceeded over any 70 day period, where this amount is:

- (a) the maximum net amount owed by the Market Participant to the IMO over the 70 day period;
- (b) determined by applying the factors set out in clause 2.37.5; and
- (c) calculated in accordance with the Market Procedure referred to in clause 2.43.1.

~~2.37.4. The Credit Limit for each Market Participant is the dollar amount determined by the IMO as being equal to the maximum net amount that the Market Participant is expected to owe the IMO over any 70 day period where this amount is not expected to be exceeded more than once in a 48 month period. When determining the Credit Limit for a Market Participant the IMO must take into account:~~

- ~~(a) the average level and volatility of the Balancing Price and the STEM Clearing Price for the previous 48 months, or such shorter time period as data is available for;~~
- ~~(b) the metered quantity data for the Market Participant, or an estimate of their expected generation and consumption where no meter data is available;~~
- ~~(c) the correlation between the Relevant Dispatch Quantity and the Balancing Price;~~
- ~~(d) the length of the settlement cycle and the process set out in clauses 9.23, 9.24 and 2.32;~~
- ~~(e) a reduction in the Credit Limit reflecting applicable bilateral contract purchase quantities, where these quantities are the historical bilateral contract submissions, or an estimate of the Market Participant's expected bilateral contract levels where no historical bilateral contract submission data is available;~~
- ~~(f) the historical STEM sales and purchases, or an estimate of the Market Participant's expected STEM sales and purchases where no historical STEM sale and purchase data is available;~~
- ~~(fA) the historical level of payments under clause 9.8.1 or an estimate of the Market Participant's expected level of payments under clause 9.8.1 where no historical payment data is available;~~
- ~~(g) the expected level of Ancillary Service payments;~~
- ~~(h) the statistical distribution of the accrued amounts that may be owed to the IMO;~~
- ~~(i) the degree of confidence that the Credit Limit will be large enough to meet large defaults; and~~
- ~~(j) any past breach of the Regulations or these Market Rules by, the Market Participant or a related entity of the Market Participant.~~

2.37.5. When determining a Market Participant's Credit Limit the IMO must take into account:

- (a) the Market Participant's historical level of payments based on metered quantity data for the Market Participant, or an estimate of the Market Participant's future

level of payments based on its expected generation and consumption quantities where no metered quantity data is available;

- (b) the Market Participant's historical level of Bilateral Contract sale and purchase quantities as reflected in historical Bilateral Contract submissions, or an estimate of the Market Participant's expected level of Bilateral Contract sale and purchase quantities where no historical Bilateral Contract submission data is available;
- (c) the Market Participant's historical level of STEM settlement payments under clause 9.6.1, or an estimate of the Market Participant's future level of STEM settlement payments based on its expected STEM sales and purchases where no historical STEM settlement payment data is available;
- (d) the Market Participant's historical level of Reserve Capacity settlement payments under clause 9.7.1, or an estimate of the Market Participant's future level of Reserve Capacity settlement payments based on its number of Capacity Credits where no historical Reserve Capacity settlement payment data is available;
- (e) the Market Participant's historical level of Balancing settlement payments under clause 9.8.1, or an estimate of the Market Participant's future level of Balancing settlement payments based on its expected transactions in the Balancing Market where no historical Balancing settlement payment data is available;
- (f) the Market Participant's historical level of Ancillary Service settlement payments under clause 9.9.1, or an estimate of the Market Participant's future level of Ancillary Service settlement payments based on its expected Ancillary Service provision where no historical Ancillary Service settlement payment data is available;
- (g) the Market Participant's historical level of Outage Compensation settlement payments under clause 9.10.1, or an estimate of the Market Participant's future level of Outage Compensation settlement payments based on its expected level of Outages where no historical Outage Compensation settlement payment data is available;
- (h) the Market Participant's historical level of Reconciliation settlement payments under clause 9.11.1, or an estimate of the Market Participant's future level of Reconciliation settlement payments where no historical Reconciliation settlement payment data is available;
- (i) the Market Participant's historical level of Market Participant Fee settlement payments under clause 9.13.1, or an estimate of the Market Participant's future level of Market Participant Fee settlement payments based on its expected generation or consumption quantities where no historical Market Participant Fee settlement payment data is available;
- (j) the length of the settlement cycle; and
- (k) any other factor that the IMO considers relevant.

~~2.37.5. A Market Participant must notify the IMO as soon as practicable where it considers that:~~

- ~~(a) its metered consumption quantities in a Trading Month will significantly exceed the amount assumed in the last calculation of its Credit Limit; or~~

~~(b) — its quantity of electricity purchased bilaterally in a Trading Month will be significantly lower than assumed in the last calculation of its Credit Limit.~~

~~2.37.6. In determining a Market Participant's Credit Limit under clause 2.37.4, the IMO may, to the extent it considers relevant, take into account a minimum amount that the IMO considers would adequately protect the Wholesale Electricity Market if a Suspension Event were to occur in relation to that Market Participant.~~

~~2.37.7. The IMO must notify each Market Participant of its Credit Limit, including any revised Credit Limit under clause 2.37.2. The IMO must provide details of the basis for the determination of the Credit Limit (with references to the factors specified in clause 2.37.5 and the Market Procedure referred to in clause 2.43.1).~~

~~2.37.58. A Market Participant must notify the IMO as soon as practicable wVwhere it considers that: any of the circumstances specified in the relevant Market Procedure for the purposes of this clause (which are circumstances that may result in an increase or decrease in a Market Participant's Credit Limit) have occurred or may occur;~~

~~(a) the Market Participant must notify the IMO as soon as practicable if the circumstance may result in an increase in the Market Participant's Credit Limit; and~~

~~(b) the Market Participant may notify the IMO if the circumstance may result in a decrease in the Market Participant's Credit Limit.~~

~~(a) — its metered consumption quantities in a Trading Month will significantly exceed the amount assumed in the last calculation of its Credit Limit; or~~

~~(b) — its quantity of electricity purchased bilaterally in a Trading Month will be significantly lower than assumed in the last calculation of its Credit Limit.~~

~~2.37.6. — [Blank]~~

~~2.37.7. — [Blank]~~

~~2.37.8. The IMO must notify each Market Participant of their Credit Limit, and provide details of the basis for the determination of the Credit Limit.~~

~~2.37.9. The IMO must develop guidelines in the Market Procedure referred to in clause 2.43 for determining the expected value of a transaction. The guidelines must be consistent with the methodology that the IMO uses to determine Credit Limits for Market Participants.~~

2.38. Credit Support

~~2.38.1. Where at any time a Market Participant does not meet the Acceptable Credit Criteria set out in clause 2.38.6, then the A Market Participant, must ensure that, at all times, the IMO holds the benefit of Credit Support that is:~~

- (a) in the form specified in clause 2.38.4; and
- (b) in an amount not less than ~~the~~ the most recently determined Credit Limit for that Market Participant.
- 2.38.2. Where a Market Participant's existing Credit Support is due to expire or cease to have effect for any other reason~~terminate~~, then that Market Participant must, ~~at least 10 Business Days before the time when the existing Credit Support will expire or terminate,~~ ensure that the IMO holds the benefit of a replacement Credit Support that:
- (a) is in the form specified in clause 2.38.4;
- (b) is in an amount not less than the level required under clause 2.38.1(b); and
- (c) that will become effective when at the expiry of the existing Credit Support expires or otherwise ceases to have effect.
- 2.38.3. Where a Market Participant's Credit Support Limit is affected by any of the circumstances specified in the Market Procedure referred to in clause 2.43.1 for the purposes of this clause~~increased, or where the existing Credit Support is no longer current or valid (for example, because the credit support provider ceases to meet the Acceptable Credit Criteria) or where some or all of the Credit Support has been drawn on by the IMO in accordance with these Market Rules,~~ then that Market Participant must ensure that the IMO holds the benefit of a replacement Credit Support that:
- (a) is in the form specified in clause 2.38.4;
- (b) is in an amount not less than the level required under clause 2.38.1(b); and
- (c) becomes effective within 24 hours after the Market Participant first becomes aware of the relevant change in circumstance (whether by reason of the Market Participant's own knowledge or a notification by the IMO) one Business Day.
- 2.38.4. The Credit Support for a Market Participant must be:
- (a) an obligation in writing that:
- i. is from a eCredit sSupport provider, who must be an entity which meets the Acceptable Credit Criteria and which itself is not a Market Participant;
 - ii. is a guarantee or bank undertaking in a form prescribed by the IMO;
 - iii. is duly executed by the eCredit sSupport provider and delivered unconditionally to the IMO;
 - iv. constitutes valid and binding unsubordinated obligations to the eCredit sSupport provider to pay to the IMO amounts in accordance with its terms which relate to obligations of the relevant Market Participant's obligations under the Market Rules; and
 - v. permits drawings or claims by the IMO up to a stated amount; or

- (b) a cash deposit (“**Security Deposit**”) made with the IMO by or on behalf of the Market Participant.

2.38.7. The IMO must maintain on the Market Web Site a list of entities which:

- (a) ~~have provided~~ the IMO is satisfied, based on evidence provided by Market Participants in the previous ~~12~~twelve months, ~~with evidence satisfactory to the IMO that they~~ meet the Acceptable Credit Criteria outlined in clause 2.38.6; or
- (b) the IMO has determined in its absolute discretion meet the Acceptable Credit Criteria outlined in clause 2.38.6.

2.40. Outstanding Amount

2.40.1. The Outstanding Amount for a Market Participant at any time equals the total amount calculated as follows:

(a) ~~— [Blank]~~

(b) ~~— the total amount calculated as follows:~~

- (a)~~i-~~ the aggregate of the amounts payable by the Market Participant to the IMO under these Market Rules, including amounts for all past periods for which no Settlement Statement has yet been issued, and whether or not the payment date has yet been reached; less
- (b)~~ii-~~ the aggregate of the amounts payable by the IMO to the Market Participant under these Market Rules, including amounts for all past periods for which no Settlement Statement has yet been issued, and whether or not the payment date has yet been reached; less
- (c) the aggregate of any amounts paid by the Market Participant to the IMO for the purpose (to be specified by the Market Participant in accordance with the Market Procedure referred to in clause 2.43.1) of reducing the Outstanding Amount and increasing the Trading Margin on each day during the period from the Trading Day on which the Outstanding Amount is calculated up to and including either the next STEM Settlement Date or the next Non-STEM Settlement Date whichever settlement date occurs first.

2.41. Trading Margin

2.41.2. A Market Participant must not make any submission to the IMO where the transaction contemplated by the submission, if valued according to the list of factors referred to in clause 2.41.5, could result in ~~the Trading Margin of the Market Participant's Trading Margin~~ being exceeded, ~~were the transaction to be valued according to the expected value guidelines referred to in clause 2.37.9.~~

2.41.3. The IMO may reject any submission from a Market Participant where in the IMO's opinion the transaction contemplated by the submission, if valued according to the list of

~~factors referred to in clause 2.41.5, could result in the Trading Margin of the Market Participant's Trading Margin being exceeded, were the transaction to be valued according to the expected value guidelines referred to in clause 2.37.9.~~

2.41.5. The IMO must publish in the Market Procedure referred to in clause 2.43.1, a list of factors to be taken into account for determining the expected value of a transaction. The factors must be consistent with the methodology that the IMO uses to determine Credit Limits for Market Participants.

2.42. Margin Call

2.42.1. If, at any time, a Market Participant's Trading Margin ~~is less than~~ ~~drops to zero or below,~~ then the IMO may issue a Margin Call Notice to the Market Participant, specifying the amount of the Margin Call.

2.42.2. ~~[Blank]The Typical Accrual for a Market Participant at any time is the amount that the IMO determines would have been the Outstanding Amount of the Market Participant at that time if the prices and quantities applying to amounts payable by the Market Participant were equal to the average prices and quantities as applied in the most recent determination of the Market Participant's Credit Limit.~~

2.42.3. The amount of the Margin Call must be the amount that will increase the Market Participant's Trading Margin to zero.~~equal to the Market Participant's Outstanding Amount less the Market Participant's Typical Accrual.~~

2.42.4. ~~Where a Margin Call Notice is issued, the~~A Market Participant must respond within 24 hours after receiving a ~~one Business Day from the Margin Call Notice being issued~~ respond to the Margin Call by either:

- (a) paying to the IMO in cleared funds a Security Deposit as contemplated under clause 2.38.4(b); or
- (b) ensuring the IMO has the benefit of additional Credit Support of the kind contemplated by clause 2.38.4(a),

in the amount of the Margin Call.

2.42.7. ~~Where~~~~†~~The IMO issues a Margin Call Notice, it must review a the Market Participant's Credit Limit within 30 Business Days after issuing a Margin Call Notice to that Market Participant.~~of the relevant Market Participant and increase the Credit Limit in line with the amount of the Margin Call.~~

2.43. Prudential Market Procedure

2.43.1. The IMO must develop a Market Procedure dealing with:

...

- (e) ~~guidelines~~ the list of factors to be taken into account for assessing the expected value of transactions;
- (f) issuing of Margin Calls; and
- (g) other matters relating to clauses 2.37 to 2.42,

...

4.13.1. Where the IMO assigns Certified Reserve Capacity to a Facility that is yet to enter service (or re-enter service after significant maintenance or having been upgraded), the relevant Market Participant must ensure that the IMO holds the benefit of a Reserve Capacity Security that is:

- (a) in the form specified in clause 4.13.5; and
- (b) in an amount determined under clause 4.13.2(a) by the date and time specified in clause 4.1.13.

4.13.2C Where under clause 4.13.2B the IMO notifies a Market Participant that excess Reserve Capacity Security is currently held, then a Market Participant may replace the existing Reserve Capacity Security with a replacement Reserve Capacity Security. ~~The replacement Reserve Capacity Security~~ which must:

- (a) be in the form specified in clause 4.13.5;
- (b) be in an amount not less than the amount required under clause 4.13.2(b); and
- (b) become effective before the IMO returns any excess Reserve Capacity Security.

4.13.3. Where a Market Participant's existing Reserve Capacity Security is due to ~~terminate~~ expire or cease to have effect for any other reason and after that ~~termination~~ expiration the Market Participant will continue to have an obligation to ensure the IMO holds the benefit of a Reserve Capacity Security under clause 4.13.1, then that Market Participant must ensure that the IMO holds the benefit of a replacement Reserve Capacity Security that. ~~The replacement Reserve Capacity Security~~ must:

- (a) is in the form specified in clause 4.13.5;
- (b) ~~be~~ is an amount not less than the amount required under clause 4.13.2; and
- (b) ~~becomes~~ effective when ~~before the termination of the existing Reserve Capacity Security expires or otherwise ceases to have effect.~~

4.13.4. Where a Market Participant's Reserve Capacity Security is affected by any of the circumstances specified in the Market Procedure referred to in clause 4.13.8 for the purposes of this clause ~~no longer current or valid (for example, because the Reserve Capacity Security provider ceases to meet the Acceptable Credit Criteria)~~, then that Market Participant must ensure that the IMO holds the benefit of a replacement Reserve Capacity Security that:

(a) is in the form specified in clause 4.13.5;

(b) is in an amount not less than the level required under clause 4.13.2; and

(c) becomes effective within 24 hours after the Market Participant first becomes aware of the relevant change in circumstance (whether by reason of the Market Participant's own knowledge or a notification by the IMO) ~~one Business Day.~~

4.13.5. The Reserve Capacity Security for a Market Participant must be:

(a) an obligation in writing that:

i. is from a Reserve Capacity Security provider, who must be an entity which meets the Acceptable Credit Criteria and which itself is not a Market Participant;

ii. is a guarantee or bank undertaking in a form prescribed by the IMO;

iii. is duly executed by the Reserve Capacity Security provider and delivered unconditionally to the IMO;

iv. constitutes valid and binding unsubordinated obligations to the Reserve Capacity Security provider to pay to the IMO amounts in accordance with its terms which relate to ~~the obligations of~~ the relevant Market Participant's obligations under the Market Rules to pay compensation under clause 4.13.11; and

v. permits drawings or claims by the IMO up to a stated amount; or

(b) if the IMO in its discretion considers it an acceptable alternative in the circumstances to the obligation under clause 4.13.5(a), a cash deposit ("**Security Deposit**") made with the IMO (on terms acceptable to the IMO in its discretion) by or on behalf of the Market Participant.

11 Glossary

Margin Call Notice: A notification by the IMO to a Market Participant that the Market Participant's Trading Margin ~~has dropped below~~ is less than zero, and requiring the payment of a Margin Call.

...

Reserve Capacity Security: The reserve capacity security to be provided for a Facility that:

- (a) has the meaning given in clause 4.13.5; and
- (b) is as calculated and re-calculated under clause 4.13 and clause 4.28C.

...

~~**Typical Accrual:** The amount determined in accordance with clause 2.42.2.~~

Appendix 1. Further Amendments to the Proposed Amending Rules

The IMO has made some amendments to the Amending Rules following the first submission period. These changes are as follows (~~deleted text~~, added text):

- 2.37.5. When determining a Market Participant's Credit Limit the IMO must take into account:
- (a) the Market Participant's historical level of payments based on metered quantity data for the Market Participant, or an estimate of the Market Participant's future level of payments based on its expected generation and consumption quantities where no metered quantity data is available;
 - (b) the Market Participant's historical level of ~~payments based on its~~ Bilateral Contract sale and purchase quantities as reflected in historical ~~Bilateral eContract~~ submissions, or an estimate of the Market Participant's future-expected level of ~~payments based on its expected~~ Bilateral Contract sale and purchase quantities where no historical ~~Bilateral eContract~~ submission data is available;
- ...
- 2.37.8. ~~A Market Participant must notify the IMO as soon as practicable w~~Where any of the circumstances specified in the relevant Market Procedure for the purposes of this clause (which are circumstances that may result in an increase or decrease in a Market Participant's Credit Limit) have occurred or may occur,
- (a) the Market Participant must notify the IMO as soon as practicable if the circumstance may result in an increase in the Market Participant's Credit Limit;
and
 - (b) the Market Participant may notify the IMO if the circumstance may result in a decrease in the Market Participant's Credit Limit.